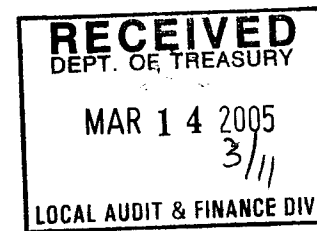


Otsego District Public Library
Otsego, Michigan

**Annual Financial Statements
and
Auditors' Report**

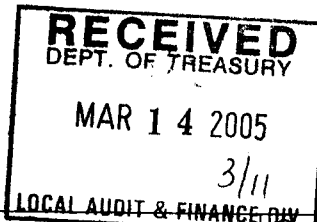
December 31, 2004

03-8003



AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended.



Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Otsego District Public Library		County Allegan
Audit Date 12/31/04	Opinion Date 01/18/05	Date Accountant Report Submitted to State: 03/15/05		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable boxes for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL: 129/91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) Yeo & Yeo, P.C.			
Street Address 710 E Milham	City Kalamazoo	State MI	ZIP 49002
Accountant Signature <i>Carol Potridge</i>			

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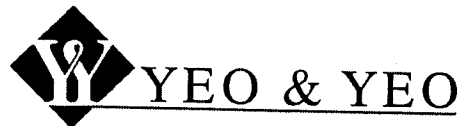
Otsego District Public Library
Otsego, Michigan
Members of the Library Board and Administration
December 31, 2004

MEMBERS OF THE LIBRARY BOARD

Donna Beach	President
John Chapman	Vice President
Diana Gilmer	Treasurer
Nancy Seibert	Secretary
Renny Ransbottom	Trustee
Sharon Tans	Trustee

ADMINISTRATION

Ryan Wieber	Librarian
-------------	-----------



710 E. Milham
Kalamazoo, MI 49002
Phone (269) 329-7007 / (800) 375-3968
Fax (269) 329-0626

Independent Auditors' Report

Members of the Library Board
Otsego District Public Library
Otsego, Michigan

We have audited the accompanying basic financial statements of Otsego District Public Library as of December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of Otsego District Public Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Otsego District Public Library as of December 31, 2004 and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information listed in the financial section of the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Otsego District Public Library. This information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The management's discussion and analysis included in the financial section of the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Otsego District Public Library. We did not examine this data and, accordingly, do not express an opinion thereon.

As discussed in Note 1, the Library adopted Governmental Accounting Standards Board Statement Number 34 during the current year. As a result, these financial statements presented entirely new financial information. Governmental activities report information by individually significant fund, as well as in total on the full accrual basis of accounting.

Yeo & Yeo, P.C.

Kalamazoo, Michigan

January 18, 2005

Otsego District Public Library
Management's Discussion and Analysis
December 31, 2004

This section of the Otsego District Public Library annual financial report presents our discussion and analysis of the Library's financial performance during the year ended December 31, 2004. Please read it in conjunction with the Library's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole Library, presenting both an aggregate view of the Library's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Library's operations in more detail than the government-wide financial statements by providing information about the Library's most significant funds – the General Fund and the Capital Projects Funds. The annual report is arranged as follows:

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for General Fund

Otsego District Public Library
Management's Discussion and Analysis
December 31, 2004

Reporting the Library as a Whole – Government-wide Financial Statements

The statement of net assets and the statement of activities, which appear first in the Library's financial statements, report information about the Library as a whole using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. The statement of net assets includes all of the Library's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

These two statements report the Library's net assets and how they have changed. Net assets – the difference between assets and liabilities, as reported in the statement of net assets – is one way to measure the Library's financial health, or position. Over time, increases or decreases in the Library's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Library's operating results. However, the Library's goal is to provide services to our patrons, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the services provided to assess the overall health of the Library.

The statement of net assets and statement of activities report the governmental activities for the Library, which encompass all of the Library's services. Property taxes, unrestricted State aid, and penal fines finance most of these activities.

Reporting the Library's Funds – Fund Financial Statements

The Library's fund financial statements provide detailed information about the Library's funds – not the Library as a whole. Some funds are required to be established by State law. The Library establishes funds to help it control and manage money for particular purposes and to show that it's meeting its legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the Library use the following accounting approach:

Governmental funds – All of the Library's services are reported in Governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Library and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Library's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

Otsego District Public Library
Management's Discussion and Analysis
December 31, 2004

The Library as a Whole

Recall that the statement of net assets provides the perspective of the Library as a whole. Table 1 provides a summary of the Library's net assets as of December 31, 2004.

TABLE 1

Assets	Governmental Activities
Current assets	
Property and equipment, net	\$ 743,725
	<u>324,638</u>
Total assets	<u>1,068,363</u>
Liabilities	
Current liabilities	<u>6,659</u>
Total liabilities	<u>6,659</u>
Net Assets	
Invested in property and equipment – net	324,638
Restricted	129,231
Unrestricted	<u>607,835</u>
Total net assets	\$ <u>1,061,704</u>

The above analysis focuses on the net assets

The results of this year's operations for the Library as a whole are reported in the statement of activities (see Table 2), which shows the sources of revenue for the year 2004.

Otsego District Public Library
Management's Discussion and Analysis
December 31, 2004

TABLE 2

Revenue	Governmental Activities
Property taxes	
State aid	\$ 327,034
Penal Fines	11,882
Other revenue	72,107
	<u>158,264</u>
Total Revenue	569,287
Functions/Program Expenses	
Library services	<u>392,917</u>
Excess (deficiency) of revenues over expenditures	\$ <u><u>176,370</u></u>

Property taxes for operations and penal fines constitute the vast majority of Library's operating revenue sources. The Library Board and librarian must annually evaluate the needs of the Library and balance those needs with other available unrestricted resources.

The Library as a Whole

The Library's net assets increased \$176,370 in 2004. The main reasons for the increase were due to the capital campaign initiative for a new building and to the continued growth of the Library's property tax base.

The Library's primary source of revenue is from property taxes, which represents 57% of total revenue. 2004 property tax revenue increased by nearly 4% compared to 2003. Penal fine revenue exceeded budgeted expectations by 20%, and state aid revenues decreased slightly. Interest on investments was \$5,901 lower than expected, and contributions and donations (cash and pledges) for the year totaled \$139,127.

Salaries and fringes continue to be a significant expense, representing 47% of the Library's total expenses. An increase of \$34,000 or 78% in professional expenses from 2003 to 2004 reflects the increased attorney and consultant fees work needed for the capital campaign, election preparation, and the transfer of the 219 S. Farmer Street property from the City and Otsego Township. to the Library. Also, new for the 2004 list of expenses is \$45,000 in depreciation expenses.

**Otsego District Public Library
Management's Discussion and Analysis
December 31, 2004**

The Library's Fund

An analysis of the Library's major funds is included on page 4-3 and 4-5 in the first column. The fund column provides detailed information about the most significant funds – not the Library as a whole. The Library Board has the ability to create separate funds to help manage money for specific purposes, and to maintain accountability for certain activities such as the Library's current capital campaign fund, listed as "Capital Projects Fund."

The fund balance of the General Fund increased during 2004 by \$41,123.

Library Budgetary Highlights

Over the course of the year, the Library Board amended the budget to take into account events that occurred during the year. The most significant amendments occurred in library materials and programs, professional fees, and grounds expenses.

The increases in the budgeted amounts for books and programs reflect monetary gifts, memorial donations, and reimbursed purchases. The increase in professional fees relates to costs incurred during the Library's capital campaign and the Breton Group consulting contract, and for attorney work needed for the 219 South Farmer Street purchase agreement, and for bond election work. Due to cost increases in maintaining the 401 Dix Street property, \$1,000 was added to "Grounds."

Otsego District Public Library
Management's Discussion and Analysis
December 31, 2004

Capital Assets Administration

Capital Assets

At December 31, 2004, the Library had \$324,638 invested in capital assets, including land, buildings, and furniture and equipment in accordance with its capitalization policy. Amounts under \$1,000 are not included herein.

	<u>2004</u>
Assets not being depreciated – Land	\$ 189,735
Building and building improvements	39,380
Equipment and furniture	57,406
Library books	<u>470,000</u>
Total capital assets	756,521
Less accumulated depreciation	<u>(431,883)</u>
Net capital assets	\$ <u><u>324,638</u></u>

Next Year's Millage Rate

In August 2005, the Library Board will consider the millage rate to be levied for Winter 2005 (these revenues will be received and recorded in fiscal year 2006). The 2004 rate is .9888 mills per thousand dollars of taxable value.

Contacting the Library's Financial Management

This financial report is designed to provide the Library's citizens, taxpayers, customers, investors, and creditors with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Library at 219 South Fenner Street, Otsego, MI 49078.

Otsego District Public Library
Statement of Net Assets
December 31, 2004

	<u>Governmental Activities</u>
Assets	
Current assets	
Cash	
Investments	\$ 439,210
Due from other governments	197,867
Pledges receivable	4,608
Total current assets	<u>102,040</u>
Noncurrent assets	<u>743,725</u>
Capital assets	
Land	
Building and improvements	189,735
Equipment and furniture	39,380
Library books	57,406
Less: accumulated depreciation	470,000
Total noncurrent assets	<u>(431,883)</u>
Total assets	<u>324,638</u>
	<u>1,068,363</u>
Liabilities	
Current liabilities	
Salaries and benefits payable	<u>6,659</u>
Net Assets	
Invested in capital assets	
Restricted for:	324,638
Capital projects	
Unrestricted	129,231
Total net assets	<u>607,835</u>
	<u>\$ 1,061,704</u>

See Accompanying Notes to Financial Statements

Otsego District Public Library
Statement of Activities
For the Year Ended December 31, 2004

Revenue

Property taxes	
State aid	\$ 327,034
Penal fines	11,882
Interest on investments	72,107
Contributions and donations	8,128
Library fines and fees	139,127
Other miscellaneous	8,981
Total revenue	<u>2,028</u>
	<u>569,287</u>

Expenses

Advertising	
Conferences, workshops, and travel	7,179
Co-op expense	1,713
Insurance	3,265
Library books and materials	4,651
Miscellaneous	19,613
Professional fees	1,719
Repair and maintenance	78,230
Salaries and fringe benefits	6,552
Supplies	182,905
Technology	15,307
Utilities	8,249
Depreciation	17,712
Total expenditures	<u>45,822</u>
	<u>392,917</u>

Change in Net Assets

Net Assets - beginning of year	176,370
Net Assets - end of year	<u>885,334</u>
	<u>\$ 1,061,704</u>

See Accompanying Notes to Financial Statements

Otsego District Public Library
Balance Sheet - Governmental Funds
December 31, 2004

	General Fund	Other Governmental Fund	Total Governmental Funds
Assets			
Cash			
Investments	\$ 410,879	\$ 28,331	\$ 439,210
Due from other governments	197,867	-	197,867
Pledges receivable	4,608	-	4,608
Due from other funds	-	102,040	102,040
	<u>1,140</u>	<u>-</u>	<u>1,140</u>
Total assets	\$ <u><u>614,494</u></u>	\$ <u><u>130,371</u></u>	\$ <u><u>744,865</u></u>
Liabilities and Fund Balance			
Liabilities			
Salaries and benefits payable	\$ 6,659	\$ -	\$ 6,659
Due to other funds	-	1,140	1,140
Total liabilities	<u>6,659</u>	<u>1,140</u>	<u>7,799</u>
Fund Balance			
Reserved for capital projects	-	129,231	129,231
Designated for capital improvements	28,252	-	28,252
Designated for property investments	452,504	-	452,504
Designated for microfilming	327	-	327
Designated for memorial and donations	4,402	-	4,402
Undesignated	122,350	-	122,350
Total fund balance	<u>607,835</u>	<u>129,231</u>	<u>737,066</u>
Total liabilities and fund balance	\$ <u><u>614,494</u></u>	\$ <u><u>130,371</u></u>	\$ <u><u>744,865</u></u>

See Accompanying Notes to Financial Statements

Otsego District Public Library
Reconciliation of the Balance Sheet -
Governmental Funds to the Statement of Net Assets
December 31, 2004

Total fund balances for governmental funds

\$ 737,066

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land		
Buildings and improvements	\$ 189,735	
Equipment and furniture	39,380	
Library books	57,406	
Less: accumulated depreciation	470,000	
	<u>(431,883)</u>	<u>324,638</u>

Net assets of governmental activities

\$ 1,061,704

See Accompanying Notes to Financial Statements

Otsego District Public Library
Combined Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2004

	General Fund	Capital Projects	Total Governmental Funds
Revenues			
Property taxes	\$ 327,034	\$ -	\$ 327,034
State aid	11,882	-	11,882
Penal fines	72,107	-	72,107
Interest on investments	8,099	29	8,128
Contributions and donations	3,905	135,222	139,127
Library fines and fees	8,981	-	8,981
Other miscellaneous	2,028	-	2,028
Total revenues	<u>434,036</u>	<u>135,251</u>	<u>569,287</u>
Expenditures			
Advertising	7,179	-	7,179
Conferences, workshops, and travel	1,713	-	1,713
Co-op expense	3,265	-	3,265
Insurance	4,651	-	4,651
Library books and materials	53,713	-	53,713
Miscellaneous	1,719	-	1,719
Professional fees	78,230	-	78,230
Repair and maintenance	6,552	-	6,552
Salaries and fringe benefits	182,191	714	182,905
Supplies	8,725	6,582	15,307
Technology	22,131	-	22,131
Utilities	17,712	-	17,712
Capital outlay	5,132	-	5,132
Total expenditures	<u>392,913</u>	<u>7,296</u>	<u>400,209</u>
Excess of revenues over expenditures	41,123	127,955	169,078
Fund balance - beginning	566,712	1,276	567,988
Fund balance - ending	<u>\$ 607,835</u>	<u>\$ 129,231</u>	<u>\$ 737,066</u>

See Accompanying Notes to Financial Statements

Otsego District Public Library
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2004

Net change in fund balances - total governmental funds

\$ 169,078

Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay
Depreciation expense

53,114

(45,822)

7,292

Change in net assets of governmental activities

\$ 176,370

See Accompanying Notes to Financial Statements

Otsego District Public Library
Notes to Financial Statements
December 31, 2004

**NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Otsego District Public Library (the "Library") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the Library's significant accounting policies:

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Library's activities
- A change in the fund financial statements to focus on the major funds

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

Reporting Entity

The Library is located in the City of Otsego, Michigan and is governed by an appointed six-member board. The Library is primarily funded through a tax levy, fines and fees, and charitable donations. Revenue is used to operate and staff the Library. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on the significance of any operational or

financial relationships with the Library, there are no component units to be included in these financial statements.

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation**

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major funds).

Government-wide Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts (1) invested in capital assets, net of related debt (2) restricted net assets, and (3) unrestricted net assets.

The statement of activities demonstrates the degree to which the direct expense of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to library patrons who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function or

Otsego District Public Library
Notes to Financial Statements
December 31, 2004

segment. Taxes and other items are not properly included among program revenues, and are reported instead as general revenue.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and penal fines associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Library.

The Library reports the following major governmental funds:

The *General Fund* is the Library's primary operating fund. It accounts for all financial resources of the Library, except those required to be accounted for in another fund.

The *Capital Projects Fund* is used to account for resources for the acquisition or construction of capital facilities or equipment by the Library.

Financial Statement Amounts

Bank Deposits and Investments – The Library has defined cash and cash equivalents to include cash on hand, demand deposits and short-term investments with maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as "due to/from other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

All trade and property taxes receivable are shown net of an allowance for uncollectible amounts. Property taxes are levied on December 1st based on the taxable valuation of the property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Capital Assets – Capital assets are defined by the Library as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated assets are reported at an estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20 – 50 years
Furniture and equipment	5 – 10 years
Improvements	10 – 20 years

Otsego District Public Library
Notes to Financial Statements
December 31, 2004

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subjective to change.

Comparative Data

Comparative data is not included in the Library's financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE, ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and State law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The appropriation level adopted by the Board is the level of control authorized under the Act. State law requires the Library to have its budget in place by November 1. A library is not considered in violation of the Act if reasonable procedures are in use by the library to detect violations.

Budgeted amounts are as originally adopted, or as amended by the Library Board throughout the year. Individual amendments were not material in relation to the original appropriations which were amended.

Appropriations lapse at year end and therefore, cancel all encumbrances. These appropriations are reestablished at the beginning of the following year.

NOTE 3 - DEPOSITS AND INVESTMENTS

State statutes and the Library's investment policy authorize the Library to make deposits in the accounts of federally insured banks and credit unions, that have an office in Michigan; the Library is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Library's deposits and investments are in accordance with statutory authority.

At yearend, the Library's deposits and investments were reported in the basic financial statements in the following categories:

	Activities
Cash and cash equivalents	\$ 439,209
Investments	<u>197,867</u>
	<u>\$ 637,076</u>

The breakdown between deposits and investments for the Library is as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$ 439,209
Investments in securities, mutual funds and similar vehicles	<u>197,867</u>
Total	<u>\$ 637,076</u>

Otsego District Public Library
Notes to Financial Statements
December 31, 2004

The deposits of the Library were reflected in the accounts of financial institutions at \$441,183 of which \$240,497 is covered by federal depository insurance, and \$200,686 is covered by the securities investor protection corporation.

Investments are categorized into these three categories of credit risk:

Category 1 – Insured or registered, or securities held by the library or its agent in the library's name;

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the library's name; and

Category 3 – Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the library's name.

At yearend, the Library's investment balances were categorized as follows:

	<u>Category 1</u>	<u>Carrying Amount</u>
Taxable bonds	\$ 197,867	\$ 197,867

Taxable bonds are purchased for the sole purpose of generating investment income.

NOTE 4 - UNCONDITIONAL PROMISES TO GIVE

During the year ended December 31, 2004, Otsego District Public Library began a capital campaign and received pledges for the construction of a new library. The amount of pledges outstanding at December 31, 2004 is as follows:

Gross contributions receivable	\$ 113,217
Less: Unamortized discount on future contributions	<u>(11,177)</u>
Contributions receivable, net	<u>\$ 102,040</u>

Gross contributions receivable at December 31, 2004 are due according to the following schedule:

Less than one year	\$ 51,013
One to five years	<u>62,204</u>
Total gross contributions receivable	<u>\$ 113,217</u>

NOTE 5 - CONDITIONAL PROMISES TO GIVE

As of December 31, 2004, the Library has been promised \$78,000 from contributors. They will receive this promise if they successfully pass a bond millage to construct a new library.

Otsego District Public Library
Notes to Financial Statements
December 31, 2004

NOTE 6 - GENERAL FIXED ASSETS

A summary of the changes in general fixed assets is as follows:

	Balance			Balance	
	January 1, 2004	Additions	Deletions	December 31, 2004	
Assets not being depreciated					
Land	\$ 189,735	\$ -	\$ -	\$ 189,735	
Other capital assets					
Buildings and improvements	35,605	3,775	-	39,380	
Furniture and equipment	42,167	15,239	-	57,406	
Library books	435,900	34,100	-	470,000	
Subtotal	703,407	53,114	-	756,521	
Accumulated depreciation	(386,061)	(45,822)	-	(431,883)	
Net book value	\$ 317,346	\$ 7,292	\$ -	\$ 324,638	

Depreciation for the year ended December 31, 2004 amounted to \$45,822.

NOTE 7 - INTERFUND RECEIVABLE AND PAYABLE

Individual interfund receivable and payable balances at December 31, 2004 were:

Fund	Receivable	Payable	Purpose
General Fund	\$ 1,140	\$ -	Reimbursement for capital campaign expenditures
Capital Projects Fund	-	1,140	Reimbursement for capital campaign expenditures paid by General Fund
	<u>\$ 1,140</u>	<u>\$ 1,140</u>	

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

NOTE 8 - RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) and certain medical benefits provided to employees. The Library has purchased commercial insurance for the protection of real and personal property. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

NOTE 9 - RETIREMENT PLAN

Plan Description

The Library has instituted a defined contribution pension plan through the City of Otsego for all full-time employees with six months of service. The pension plan provides for various elections as to the retirement benefit determination. Benefits are vested after two years of credited service. Normal retirement is age 65, with early retirement privileges commencing at age 55. There is no mandatory retirement age.

The Library's covered payroll and its total current payroll for all employees amounted to \$75,282 and \$145,189 respectively in the year ended December 31, 2004.

Contributions Required and Made

Covered employees of the Library are provided a contribution of ten percent. For the year ended December 31, 2004 the Library forwarded to the City of Otsego \$7,528.

Funding Policy and Status

The Library funds the plan monthly and as of December 31, 2004 no unfunded past service costs existed.

Otsego District Public Library
Notes to Financial Statements
December 31, 2004

NOTE 10 - FUND EQUITY

Specific reservations on fund equity include:

Reserved for capital projects – This reserve was created to restrict the use of all resources earned by the Capital Projects Fund. This money is earmarked for major capital purchases.

Specific designations include the following:

Designated for capital improvements – This designation was created to indicate funds set aside to cover capital improvements.

Designated for property investments – This designation was created to indicate funds set aside for major real property purchases and expenses associated with the purchase of real property.

Designated for microfilming – This designation was created to indicate funds set aside for microfilming.

Designated for memorials and donations – This designation was created to indicate funds set aside for memorials and donations that are donor-restricted.

NOTE 11 - ASSETS HELD BY ALLEGAN COUNTY COMMUNITY FOUNDATION

During 1999, the Otsego District Public Library Irene Galloway Fund was established at the Allegan County Community Foundation. This is an endowment fund and the principal is not expendable. Net income from the fund is reinvested as spendable income. As of December 31, 2004 the fund had a balance of \$5,626 and there were no funds in the spendable fund.

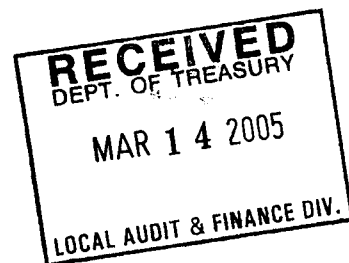
Otsego District Public Library
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Property taxes	\$ 326,000	\$ 326,000	\$ 327,034	\$ 1,034
State aid	11,700	11,700	11,882	182
Penal fines	60,000	60,000	72,107	12,107
Interest on investments	14,000	14,000	8,099	(5,901)
Contributions and donations	-	-	3,905	3,905
Library fines and fees	7,000	7,000	8,981	1,981
Other miscellaneous	-	-	2,028	2,028
Total revenues	<u>418,700</u>	<u>418,700</u>	<u>434,036</u>	<u>15,336</u>
Expenditures				
Advertising	4,800	7,486	7,179	(307)
Conferences, workshops, and travel	1,800	1,800	1,713	(87)
Co-op expense	2,900	2,900	3,265	365
Insurance	4,000	4,132	4,651	519
Library books and materials	52,750	54,762	53,713	(1,049)
Miscellaneous	1,500	1,700	1,719	19
Professional fees	21,400	88,400	78,230	(10,170)
Repair and maintenance	10,510	11,510	6,552	(4,958)
Salaries and fringe benefits	185,415	185,515	182,191	(3,324)
Supplies	5,725	9,069	8,725	(344)
Technology	22,400	22,400	22,131	(269)
Utilities	18,600	18,600	17,712	(888)
Capital outlay	86,900	15,786	5,132	(10,654)
Total expenditures	<u>418,700</u>	<u>424,060</u>	<u>392,913</u>	<u>(31,147)</u>
Excess (deficiency) of revenues over expenditures	-	(5,360)	41,123	46,483
Fund balance - beginning	566,712	566,712	566,712	-
Fund balance - ending	<u>\$ 566,712</u>	<u>\$ 561,352</u>	<u>\$ 607,835</u>	<u>\$ 46,483</u>



January 18, 2005

The Library Board
Otsego District Public Library
Otsego, Michigan



We have audited the financial statements of Otsego District Public Library for the year ended December 31, 2004, and have issued our report thereon dated January 18, 2005. As part of our audit, we made a study and evaluation of the system of internal accounting control of Otsego District Public Library to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America. Accordingly, we do not express an opinion on the system of internal accounting control taken as a whole. However, our study and evaluation disclosed no conditions that we believe to be a material weakness.

As a result of the aforementioned study, certain matters did come to our attention upon which we would like to comment and offer our recommendations:

Prior Year Conditions and Recommendations:

Conditions noted for the year ended December 31, 2003 and the status for the year ended December 31, 2004:

INTERNAL CONTROLS OVER DISBURSEMENTS

Existing Procedure

The Library's current system of controls over disbursements is as follows: Ryan Wieber, Librarian, approves, initials, dates and puts the account number on invoices to be paid. Judy Harrison, bookkeeper, enters the information into QuickBooks (accounting software utilized by the Library) and prints the checks. The printed checks and supporting documentation are returned to Ryan for signature. He reviews the checks for accuracy and to ensure the checks are for the proper items approved. He signs, seals and mails the checks. A dual signature is required on all checks. In performing our test of controls in the previous year we noted deviations from procedures the Library has in place. One deviation noted was no dual signature, which lead us to discover that the Treasurer pre-signs a set of blank checks. The second deviation noted was no supporting documentation to support the check written.

Status

During our current year testing, one item in our testing deviated from the procedures the Library has in place over internal controls, dual signatures. The Library is working diligently to ensure proper procedures are followed.

QUICKBOOKS

Existing Procedure

The Library currently utilizes the accounting software QuickBooks. The program has a password feature to prevent unauthorized users into the program. It also allows you to set up different users and to allow them specific access to various areas of the program. The Library currently does not utilize these features.

Status

The Library has implemented the use of passwords for the QuickBooks program.

ACCOUNTS PAYABLE

Existing Procedure

In performing our procedures to identify unrecorded accounts payable we noted that the Library does not follow the accrual basis of accounting. We noted several expenses that were paid in the subsequent year that related to December 31, 2003.

Status

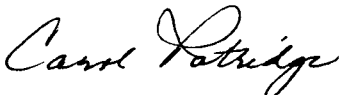
The Library has not implemented any procedures to ensure all expenses relating to year end are recorded in the proper period.

This report is intended solely for the use of management and should not be used for any other purpose.

Our firm appreciates the opportunity to serve Otsego District Public Library and would like to thank the administration and staff for their cooperation and assistance.

Should you have any questions, please do not hesitate to contact our office.

Respectfully,



Carol A. Patridge, CPA
Yeo & Yeo, P.C.